

CHRIS LAND (Wyo. Bar #7-6006)
UNITED STATES SENATE
Office of United States Senator Cynthia M. Lummis
127A Russell Senate Office Building
Washington, D.C. 20510

(202) 224-3424
chris_land@lummis.senate.gov

Counsel for Amicus Curiae

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

PAYWARD, INC. & PAYWARD VENTURES,
INC.

Defendants.

Case No. 3:23-cv-06003-WHO

**[PROPOSED] *AMICUS CURIAE* BRIEF OF
UNITED STATES SENATOR CYNTHIA M. LUMMIS
IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS**

TABLE OF CONTENTS

TABLE OF AUTHORITIES	II
INTERESTS OF <i>AMICUS CURIAE</i>	1
PRELIMINARY STATEMENT	2
ARGUMENT.....	2
I. The SEC’s Enforcement Stance In This Action Runs Counter To Ongoing Legislative Efforts.	3
II. The SEC’s Attempt to Treat Crypto Assets, Themselves, As Securities Improperly Expands the Statutory Definition of “Securities” And Violates The Separation Of Powers.....	7
CONCLUSION.....	13

TABLE OF AUTHORITIES**Page(s)****CASES**

<i>Ala. Ass'n of Realtors v. Dep't of Health & Hum. Servs.</i> , 141 S. Ct. 2485 (2021).....	8
<i>Biden v. Nebraska</i> , 143 S. Ct. 2355 (2023).....	9, 12, 13
<i>In re Coinbase, Inc.</i> , No. 23-1779 (3d Cir. Jun. 20, 2023).....	12
<i>Food & Drug Admin. v. Brown & Williamson Tobacco Corp.</i> , 529 U.S. 120 (2000).....	4, 7
<i>Nat'l Pork Producers Council v. Ross</i> , 143 S. Ct. 1142 (2023).....	7
<i>Util. Air Regul. Grp. v. Env't Prot. Agency</i> , 573 U.S. 302 (2014).....	7
<i>W. Virginia v. Env't Prot. Agency</i> , 142 S. Ct. 2587 (2022).....	7, 8, 12, 13

STATUTES

Securities Act of 1933, 15 U.S.C. § 77a <i>et seq.</i>	2
Securities Exchange Act of 1934, 15 U.S.C. § 78a <i>et seq.</i>	2

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Andrew Perrin, <i>16% of Americans Say They Have Ever Invested In, Traded or Used Cryptocurrency</i> , Pew Resch. Ctr. (Nov. 11, 2021).....	9
Blockchain Regulatory Certainty Act, H.R.1747, 118th Cong. (2023).....	4
Clarity for Payment Stablecoins Act of 2023, H.R. 4766, 118th Cong. (2023)	4, 5
<i>Coincidence or Coordinated? The Administration's Attack on the Digital Asset Ecosystem Before the H. Subcomm. on Digital Assets, Fin. Tech. and Inclusion of the H. Comm. on Fin. Serv.</i> , 118th Cong. (2023)	3
Commission Regulation 2023/1114, art. 6, 2023 O.J. (L150/40) 1.....	6
Crypto-Currency Act of 2020, H.R. 6154, 116th Cong. (2020)	4

1	<i>Crypto Crash: Why Financial System Safeguards are Needed for Digital Assets</i>	
2	<i>Before the S. Comm. on Banking, Hous., and Urb. Aff., 118th Cong. (2023)</i>	3
3	<i>Crypto Crash: Why the FTX Bubble Burst and the Harm to Consumers Before the S.</i>	
4	<i>Comm. on Banking, Hous., and Urb. Aff., 117th Cong. (2022)</i>	3
5	Crypto Exchange Disclosure Act, H. R. 9421, 117th Cong. (2022).....	4
6	Derek Saul, <i>Crypto Market Crosses \$1 Trillion For First Time In Months As Bitcoin</i>	
7	<i>Recovers From FTX-Driven Crash</i> , Forbes (Jan. 16, 2023).....	9
8	<i>Digital Assets and the Future of Finance: Examining the Benefits and Risks of a U.S.</i>	
9	<i>Central Bank Digital Currency Before the H. Comm. on Fin. Serv., 117th Cong.</i>	
10	<i>(2022) (May 26, 2022)</i>	3
11	<i>Digital Assets and the Future of Finance: The President’s Working Group on</i>	
12	<i>Financial Markets’ Report on Stablecoins Before the H. Comm. on Fin. Serv.,</i>	
13	<i>117th Cong. (2022)</i>	3
14	Digital Commodities Consumer Protection Act of 2022, H.R.8730, 117th Cong.	
15	<i>(2022)</i>	4
16	Digital Commodity Exchange Act of 2022, H.R. 7614, 117th Cong. (2022)	4
17	Eliminate Barriers to Innovation Act of 2021, H.R. 1602, 117th Cong. (2021)	4
18	<i>Examining Regulatory Frameworks for Digital Currencies and Blockchain Before</i>	
19	<i>the S. Comm. on Banking, Hous., and Urb. Aff., 116th Cong. (2019) (statement of</i>	
20	<i>Rebecca N. Nelson, Specialist in Int’l Trade and Fin.)</i> ,	6
21	Exec. Order No. 14067, 87 F.R. 14143 (2022).....	6, 8
22	FINMA, <i>Developments in FinTech</i>	6
23	<i>Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail</i>	
24	<i>Investors Collide, Part III Before the H. Comm. on Fin. Serv., 117th Cong.</i>	
25	<i>(2021) (statement of Gary Gensler, Chairman, Sec. and Exch. Comm’n)</i>	9, 10
26	H. Comm. on Agric. and H. Comm. on Fin. Serv., <i>Why is Action Needed on Digital</i>	
27	<i>Assets Market Structure Legislation?</i> (July 20, 2023).....	4, 6
28	<i>Investigating the Collapse of FTX, Part I Before the H. Comm. on Fin. Serv., 117th</i>	
	<i>Cong. (2022)</i>	3
	Joanna Ossinger, <i>Crypto World Hits \$3 Trillion Market Cap as Ether, Bitcoin Gain</i> ,	
	<i>Bloomberg</i> (Nov. 8, 2021).....	9
	Julie Tsirkin, <i>Sen. Cynthia Lummis: Crypto Regulation Bill Could Prevent Another</i>	
	<i>FTX-style Crisis</i> , NBC News (July 19, 2023)	4

1	Kara McKenna Rollins, <i>Have the SEC's Delay Tactics Made Its Petition for</i>	
2	<i>Rulemaking Process Vulnerable to Challenge? A Look at In re Coinbase Inc.</i>	
3	<i>and SEC's Nullification of 5 U.S.C. § 553(e) by Inaction</i> , Yale J. on Reg.: Notice	
4	& Comment Blog (May 3, 2023).....	12
5	Letter from Chairman Gensler to Sen. Warren (Aug. 5, 2021)	3
6	Letter from Rep. Patrick McHenry to Chairwoman Maxine Waters (Jan. 24, 2022).....	3
7	Lewis Cohen <i>et al.</i> , <i>The Ineluctable Modality of Securities Law: Why Fungible</i>	
8	<i>Crypto Assets Are Not Securities</i> (Nov. 10, 2022)	11
9	Michael P. Regan, <i>Laser Eyes Aglow on the US Presidential Campaign Trail</i> ,	
10	Bloomberg, (Aug. 1, 2023).....	9
11	Office of Senator Lummis, <i>What's New in Lummis-Gillibrand 2023</i>	3
12	Press Release, Sen. Kirsten Gillibrand, Lummis, Gillibrand Reintroduce	
13	Comprehensive Legislation to Create Regulatory Framework for Crypto Assets	
14	(Jul. 12, 2023)	3
15	Press Release, Warren Davidson, Davidson Reintroduces Token Taxonomy Act	
16	(Mar. 9, 2021)	4
17	<i>Protecting Investors and Savers: Understanding Scams and Risks in Crypto and</i>	
18	<i>Securities Markets Before the S. Comm. on Banking, Hous., and Urb. Aff.</i> , 117th	
19	Cong. (2022)	3
20	<i>Putting the 'Stable' in 'Stablecoins: ' How Legislation Will Help Stablecoins Achieve</i>	
21	<i>Their Promise Before the H. Subcomm. on Digital Assets, Fin. Tech. and</i>	
22	<i>Inclusion of the H. Comm. on Fin. Serv.</i> , 118th Cong. (2023)	3
23	Nikhilesh De, <i>SEC Chair Gensler Suggests Lummis-Gillibrand Bill May</i>	
24	"Undermine" Market Protections, Coindesk (Jun. 14, 2022).....	3
25	Responsible Self-Regulation Act of 2022, S. 5286, 117th Cong. (2022)	4
26	Securities Clarity Act, H.R. 3572, 118th Cong. (2023).....	4
27	Securities Clarity Act, H.R. 4451, 117th Cong. (2021).....	4
28	Sen. Kirsten Gillibrand, <i>To Maintain America as the Financial Capital of the World,</i>	
	<i>the Federal Government Needs to Encourage Innovation in the Digital Assets</i>	
	<i>Markets and Protect Consumers Through Thoughtful Regulation. Here's How,</i>	
	Medium (June 7, 2023).....	6
	Special Measures to Fight Modern Threats Act, H.R. 7128 and S. 3876, 117th Cong.	
	(2022).....	4
	Subcomm. on Digital Assets, Fin. Tech. and Inclusion (118th Congress)	4

1	The Central Bank Digital Currency Study Act of 2021, H.R. 2211, 117th Cong. (2021).....	4
2	The Financial Innovation and Technology for the 21st Century Act, H.R. 4763,	
3	118th Cong. (2023).....	4, 5
4	<i>The Future of Digital Assets: Identifying the Regulatory Gaps in Digital Asset</i>	
5	<i>Market Structure Before the H. Comm. on Fin. Serv. & H. Comm. on Agric. Joint</i>	
	<i>Subcomm.</i> , 118th Cong. (2023)	3
6	<i>The Future of Digital Assets: Measuring the Regulatory Gaps in the Digital Asset</i>	
7	<i>Markets Before the Joint Subcomm. of the H. Comm. on Fin. Serv. and the H.</i>	
8	<i>Comm. on Agric.</i> , 118th Cong. (2023).....	3
9	<i>The Future of Digital Assets: Providing Clarity for Digital Asset Spot Markets:</i>	
	<i>Hearing Before the H. Comm. on Agric.</i> , 118th Cong. (2023).....	3
10	<i>The Future of Digital Assets: Providing Clarity for the Digital Asset Ecosystem</i>	
11	<i>Before the H. Comm. on Fin. Serv.</i> , 118th Cong. (2023)	3
12	<i>The Promises and Perils of Central Bank Digital Currencies Before the H. Comm.</i>	
13	<i>on Fin. Serv.</i> , 117th Cong. (2021)	6
14	Token Taxonomy Act, H.R. 1628, 117th Cong. (2021).....	4
15	<i>Understanding Stablecoins' Role in Payments and the Need for Legislation Before</i>	
16	<i>the H. Subcomm. On Digital Assets, Fin. Tech. and Inclusion of the H. Comm. on</i>	
	<i>Fin. Serv.</i> , 118th Cong. (2023)	3
17	<i>Understanding the Role of Digital Assets in Illicit Finance Before the S. Comm. on</i>	
18	<i>Banking, Hous., and Urb. Aff.</i> , 117th Cong. (2022).....	3
19	U.S. Dep't of Commerce, <i>Responsible Advancement of U.S. Competitiveness in</i>	
	<i>Digital Assets</i> (Sept. 2022)	9
20	U.S. Dep't of Justice, <i>The Report of the Attorney General Pursuant to Section</i>	
21	<i>8(b)(iv) of Executive Order 14067: How to Strengthen International Law</i>	
22	<i>Enforcement Cooperation for Detecting, Investigating, And Prosecuting</i>	
	<i>Criminal Activity Related to Digital Assets</i> (June 6, 2022).....	6
23	U.S. Virtual Currency Market and Regulatory Competitiveness Act of 2019, H.R.	
24	923, 116th Cong. (2019).....	4

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INTERESTS OF AMICUS CURIAE

Amicus curiae, United States Senator Cynthia M. Lummis of Wyoming, is among the principal crypto asset policy leaders in Congress and is a member of the Senate Committee on Banking, Housing and Urban Affairs, which has jurisdiction over crypto assets and the U.S. Securities and Exchange Commission (SEC).

Senator Lummis, alongside Senator Kirsten Gillibrand of New York, reintroduced the bipartisan Lummis-Gillibrand Responsible Financial Innovation Act, S. 2281, 118th Cong. (2023), which is the most comprehensive, detailed crypto asset legislation introduced in Congress. *Amicus* seeks to draw the Court's attention to the numerous, bipartisan legislative efforts of Congress with respect to crypto assets.

Amicus also has a special interest in upholding the Constitution's separation of powers by ensuring that federal agencies do not exceed the authority conferred upon them or encroach upon Congress's ongoing legislative efforts. *Amicus* believes that the SEC's approach to enforcement in this case and in the crypto asset industry more broadly contravenes that separation of powers.

PRELIMINARY STATEMENT

The SEC brings this enforcement action against Payward (“Kraken”) in the midst of debates in the halls of Congress and around the world about how crypto assets should be regulated. The Constitution empowers the Congress—not the SEC—to legislate in such an area of profound economic and political significance.

Congress and the SEC share a desire to protect investors and orderly markets. Crypto asset related concerns, however, are not confined to the securities markets, and the SEC is not their sole protector. Although the SEC seeks broad authority over crypto asset markets, most legislative proposals in Congress would instead grant much of that authority to other agencies. Unsatisfied, the SEC seeks to circumvent the political process to commandeer that authority for itself. To do so, the SEC relies on a novel interpretation of two words—“investment contract”—nested in the definition of “security” set forth 90 years ago in the Securities Act of 1933 and the Securities Exchange Act of 1934 (Exchange Act) (collectively, the Acts). When Congress created the SEC to regulate securities markets, it did not grant the SEC power to reimagine the definition of “securities” to expand the agency’s sphere of influence into other asset classes, or to encroach on other agencies and regulatory schemes. The SEC’s attempt to shoehorn an entire new class of assets into the existing definition of a “security,” and thereby add to the definition enumerated by Congress, exceeds the SEC’s authority, encroaches on Congress’s lawmaking, and contravenes the separation of powers.

The SEC cannot legislate by enforcement.

ARGUMENT

This is no run-of-the-mill enforcement case. Through this case the SEC seeks primary influence over economic, political, and legal questions under active consideration by Congress and multiple agencies.

Amicus submits this brief to highlight: (i) the important questions implicated here, which are properly before Congress right now; and (ii) the fundamental separation-of-powers principles that

weigh strongly in favor of deferring to Congress rather than adopting the SEC’s novel and expansive view of its own authority.

I. THE SEC’S ENFORCEMENT STANCE IN THIS ACTION RUNS COUNTER TO ONGOING LEGISLATIVE EFFORTS.

Crypto asset regulation is a Congressional priority and momentum currently exists toward the passage of a balanced framework that promotes responsible innovation and protects consumers.¹ Both the House and Senate are actively considering how the United States should classify and regulate this emerging class of crypto assets, as reflected in numerous hearings.² In so doing, Congress is weighing views of the SEC among myriad other equally important perspectives.³

¹ See, e.g., Press Release, Kirsten Gillibrand, Lummis, Gillibrand Reintroduce Comprehensive Legislation To Create Regulatory Framework For Crypto Assets, (July 12, 2023), <https://tinyurl.com/35vfxjpkp> (“[Senator Lummis and I] will make passing this bipartisan legislation a priority in this Congress.”); Letter from Rep. Patrick McHenry to Chairwoman Maxine Waters (Jan. 24, 2022), <https://tinyurl.com/2aed92n9> (“I believe it is critical that we thoroughly review the current environment and prioritize the issues [around digital assets] that must be addressed.”).

² Since January 2022, the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services have held multiple hearings solely dedicated to examining the role of digital assets in the U.S. economy and potential legislation to address their regulation. See, e.g., *Crypto Crash: Why Financial System Safeguards are Needed for Digital Assets Before the S. Comm. on Banking, Hous., and Urb. Aff.*, 118th Cong. (2023); *Crypto Crash: Why the FTX Bubble Burst and the Harm to Consumers Before the S. Comm. on Banking, Hous., and Urb. Aff.*, 117th Cong. (2022); *Investigating the Collapse of FTX, Part I Before the H. Comm. on Fin. Serv.*, 117th Cong. (2022); *Protecting Investors and Savers: Understanding Scams and Risks in Crypto and Securities Markets Before the S. Comm. on Banking, Hous., and Urb. Aff.*, 117th Cong. (2022); *The Future of Digital Assets: Providing Clarity for the Digital Asset Ecosystem Before the H. Comm. on Fin. Serv.*, 118th Cong. (2023); *Putting the ‘Stable’ in ‘Stablecoins’: How Legislation Will Help Stablecoins Achieve Their Promise Before the H. Subcomm. on Digital Assets, Fin. Tech. and Inclusion of the H. Comm. on Fin. Serv.*, 118th Cong. (2023); *The Future of Digital Assets: Measuring the Regulatory Gaps in the Digital Asset Markets Before the H. Comm. On Fin. Serv. & H. Comm. on Agric. Joint Subcomm.*, 118th Cong. (2023); *The Future of Digital Assets: Identifying the Regulatory Gaps in Digital Asset Market Structure Before the H. Comm. on Fin. Serv. & H. Comm. on Agric. Joint Subcomm.*, 118th Cong. (2023); *Understanding Stablecoins’ Role in Payments and the Need for Legislation Before the H. Subcomm. On Digital Assets, Fin. Tech. and Inclusion of the H. Comm. on Fin. Serv.*, 118th Cong. (2023); *Coincidence or Coordinated? The Administration’s Attack on the Digital Asset Ecosystem Before the H. Subcomm. on Digital Assets, Fin. Tech. and Inclusion of the H. Comm. on Fin. Serv.*, 118th Cong. (2023); *Digital Assets and the Future of Finance: Examining the Benefits and Risks of a U.S. Central Bank Digital Currency Before the H. Comm. on Fin. Serv.*, 117th Cong. (2022) (May 26, 2022); *Understanding the Role of Digital Assets in Illicit Finance Before the S. Comm. on Banking, Hous., and Urb. Aff.*, 117th Cong. (2022); *Digital Assets and the Future of Finance: The President’s Working Group on Financial Markets’ Report on Stablecoins Before the H. Comm. on Fin. Serv.*, 117th Cong. (2022).

³ The SEC provided early feedback on the RFIA, see Office of Senator Cynthia Lummis, What’s New in *Lummis-Gillibrand 2023*, <https://tinyurl.com/56598c67>, and Chair Gensler publicly commented on the proposal, see Nikhilesh De, *SEC Chair Gensler Suggests Lummis-Gillibrand Bill May “Undermine” Market Protections*, CoinDesk (Jun. 14, 2022), <https://tinyurl.com/2nm99cyt>. See also Letter from Chairman Gensler to Sen. Warren, (Aug. 5, 2021), <https://tinyurl.com/4ym4fbu6> (responding to a request for information concerning the sufficiency of existing SEC authority by stating that “we need additional authorities to prevent transactions, products, and platforms from falling between regulatory cracks” and that “Regulators would benefit from additional plenary authority to write rules for and attach guardrails to crypto trading and lending.”); see also, e.g., *The Future of Digital Assets: Providing Clarity for Digital*

1 Through these efforts, it is clear that existing law is inadequate to the task of addressing crypto
2 assets.⁴

3 The SEC's assertion of authority in this case is out of step with active legislative efforts.
4 Congress has introduced various bills to address the role of various federal agencies in the
5 regulation of crypto assets.⁵ The House has also established a subcommittee dedicated specifically
6 to crypto regulation.⁶ While some pending bills may be different, the SEC's expansive, novel
7 interpretation of its own authority is inconsistent with most of the pending bills.⁷ For example:

8 1. On July 12, 2023, *amicus* Senator Lummis and Senator Kirsten Gillibrand introduced
9 the Responsible Financial Innovation Act (RFIA), S. 2281, 118th Cong. (2023). This bipartisan bill
10 takes comprehensive steps to regulate the industry and impose consumer protections, and carefully
11 delineates the roles of the SEC and the U.S. Commodity Futures Trading Commission (CFTC). It

12 _____
13 *Asset Spot Markets: Hearing Before the H. Comm. On Agric.*, 118th Cong. (2023) (statement of Rostin Benham,
14 Chairman, Commodity Futures Trading Comm'n), <https://tinyurl.com/47w447p5> (highlighting "the need for
15 Congressional action to address the lack of federal regulation over the digital commodity market.").

16 ⁴ See Julie Tsirkin, *Sen. Cynthia Lummis: Crypto Regulation Bill Could Prevent Another FTX-Style Crisis*, NBC
17 News (July 19, 2023), <https://tinyurl.com/k44cjcah> (Senator Lummis: "Companies like Kraken and Coinbase have gone
18 to the SEC and asked them to be clear and lay out the regulatory requirements that the SEC believes should apply to them.
19 And they're frustrated because they feel like they were trying to comply, but instead some of them got enforcement actions
20 slapped on them"); H. Comm. on Agric. and H. Comm. on Fin. Serv., *Why is Action Needed on Digital Assets Market
21 Structure Legislation?* (July 20, 2023) <https://tinyurl.com/34v9hypz> ("Until there is a consistent, clear framework in
22 place, market participants, consumers, and investors will continue to seek regulatory clarity given the requirements that
23 stem from the classification of a particular digital asset"); Press Release, Warren Davidson, Davidson Reintroduces Token
24 Taxonomy Act (Mar. 9, 2021), <https://tinyurl.com/45df3rup> (stating "a patchwork of laws and regulations creates
25 confusion and even hostility to various blockchain businesses.").

26 ⁵ See, e.g., Responsible Financial Innovation Act, S. 2281, 118th Cong. (2023); Clarity for the Payment
27 Stablecoins Act of 2023, H.R. 4766, 118th Cong. (2023); The Financial Innovation and Technology for the 21st Century
28 Act, H.R. 4763, 118th Cong. (2023); Securities Clarity Act, H.R. 3572, 118th Cong. (2023); Blockchain Regulatory
Certainty Act, H.R. 1747, 118th Cong. (2023). At least 50 measures relating to cryptocurrency, blockchain, and central
bank digital currency were introduced during the 117th Congress. See e.g., Responsible Self-Regulation Act of 2022, S.
5286, 117th Cong. (2022); Crypto Exchange Disclosure Act, H.R. 9421, 117th Cong. (2022); Digital Commodities
Consumer Protection Act of 2022, H.R. 8730, 117th Cong. (2022); Special Measures to Fight Modern Threats Act, H.R.
7128 and S. 3876, 117th Cong. (2022); Digital Asset Market Structure and Investor Protection Act, S. 5030 117th Cong.
(2022); ; Digital Trading Clarity Act of 2022, S. 5030, 117th Cong. (2022) ; Digital Commodity Exchange Act of 2022,
H.R. 7614, 117th Cong. (2022); Securities Clarity Act, H.R. 4451, 117th Cong. (2021); The Central Bank Digital
Currency Study Act of 2021, H.R. 2211, 117th Cong. (2021); Token Taxonomy Act, H.R. 1628, 117th Cong. (2021);
Eliminate Barriers to Innovation Act of 2021, H.R. 1602, 117th Cong. (2021); U.S. Virtual Currency Market and
Regulatory Competitiveness Act of 2019, H.R. 923, 116th Cong. (2019); Crypto-Currency Act of 2020, H.R. 6154, 116th
Cong. (2020).

⁶ See Subcomm. on Digital Assets, Fin. Tech. and Inclusion (118th Congress), <https://tinyurl.com/mr3ut7yw>.

⁷ Cf. *Food & Drug Admin. v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 144 (2000) (noting that it is
telling when Congress has "considered and rejected" bills authorizing or endorsing something akin to the agency's
proposed course of action).

1 recognizes that many initial sales of tokens may be investment contract transactions subject to SEC
 2 oversight, but also recognizes that the underlying crypto assets themselves are typically
 3 commodities and thus requires crypto asset exchanges to register with the CFTC. The legislation
 4 also grants the SEC significant new disclosure authority over crypto assets. The bill also
 5 appropriates \$1.4 billion in additional funding over the next five years to the CFTC, SEC, the U.S.
 6 Department of the Treasury, and other agencies.

7 2. On July 10, 2023, Representative Glenn Thompson, Chair of the House Committee
 8 on Agriculture, and Representative French Hill introduced The Financial Innovation and
 9 Technology for the 21st Century Act (FIT21), H.R. 4763, 118th Cong. (2023). Two weeks later,
 10 bipartisan majorities of both the House Committee on Financial Services and the House Committee
 11 on Agriculture voted to advance FIT21 to the House floor for consideration. FIT21 provides the
 12 CFTC with primary jurisdiction over crypto assets and clarifies the circumstances under which such
 13 assets would fall under SEC’s jurisdiction. It would also establish a digital commodity exchange
 14 framework that would serve as a vehicle for important consumer protections.

15 3. On August 3, 2022, Senators Debbie Stabenow and John Boozman introduced the
 16 Digital Commodities Consumer Protection Act of 2022 (DCCPA), S. 4760, 117th Cong. (2022).
 17 The DCCPA grants exclusive authority to the CFTC over activities involving digital commodities
 18 while excluding securities and stablecoins backed by the full-faith and credit of the United States. It
 19 creates a new registration regime for all “digital commodity platforms” under the Commodity
 20 Exchange Act, 7 U.S.C. § 1a *et seq.*, and designates a set of “core principles” that platforms must
 21 follow to provide important safeguards.⁸

22 Each of these bills recognizes that the crypto industry does not fit entirely within existing
 23 securities laws and transcends the current statutory powers of the SEC. The multitude of interests at
 24 stake require a holistic approach beyond the scope of a single agency, including approaches taken

26 ⁸ On July 27, 2023, the House Financial Services Committee advanced out of committee by a bipartisan vote the
 27 Clarity for Payment Stablecoins Act of 2023, introduced by Chairman Patrick McHenry, which recognizes several
 28 regulatory paths for approving and regulating stablecoin issuers while ensuring protections for consumers. H.R. 4766,
 118th Cong. (2023).

1 around the world. Congress is attuned to these important considerations.⁹ And, in its investigative
 2 and fact-gathering functions, Congress has heard testimony from numerous experts on these
 3 issues.¹⁰

4 Meanwhile, the SEC’s treatment of virtually all crypto assets as securities, and subjecting
 5 them to all the requirements of existing securities laws, is inconsistent with the approaches being
 6 taken in other jurisdictions. For example, Swiss regulations distinguish between three separate
 7 categories of tokens (payment tokens, utility tokens, and asset tokens),¹¹ many of which the SEC
 8 would sweep into its broad definition of crypto asset securities. The European Parliament,
 9 meanwhile, has passed its Markets in Crypto Assets Regulation that introduces a disclosure regime
 10 for crypto asset issuers similar to securities regulation, but adapted to the distinct features of digital
 11 assets and without need to classify the tokens as securities, much in the vein of the Lummis-
 12 Gillibrand legislation’s “ancillary asset” approach.¹²

15 ⁹ See Sen. Kirsten Gillibrand, *To Maintain America as the Financial Capital of the World, the Federal*
 16 *Government Needs to Encourage Innovation in the Digital Assets Markets and Protect Consumers Through Thoughtful*
 17 *Regulation. Here’s How*, Medium (June 7, 2023), <https://tinyurl.com/4bvnvbwX> (recognizing that without “a clear and

18 defined regulatory framework to guide their businesses practices, digital asset companies could be compelled to take their
 19 operations overseas”); H. Comm. on Agric. and H. Comm. on Fin. Serv., *Why is Action Needed on Digital Assets Market*
 20 *Structure Legislation?* (July 20, 2023), <https://tinyurl.com/34v9hypz> (cautioning that “entrepreneurs are warning against

21 doing business in the United States because of a lack of structure and are advocating for digital asset companies to move
 22 offshore” underscoring “the need for Congress to act”).

23 ¹⁰ See, e.g., *Examining Regulatory Frameworks for Digital Currencies and Blockchain Before the S. Comm. on*
 24 *Banking, Hous., and Urb. Aff.*, 116th Cong. (2019) (statement of Rebecca N. Nelson, Specialist in Int’l Trade and Fin.),
 25 <https://tinyurl.com/3nXm3xd2>; *The Promises and Perils of Central Bank Digital Currencies Before the H. Comm. on Fin.*
 26 *Serv.*, 117th Cong. (2021), <https://tinyurl.com/techr67c>; accord U.S. Dep’t of Justice, *The Report of the Attorney General*
 27 *Pursuant to Section 8(b)(iv) of Executive Order 14067: How To Strengthen International Law Enforcement Cooperation*
 28 *For Detecting, Investigating, And Prosecuting Criminal Activity Related To Digital Assets*, (June 6, 2022),
<https://www.justice.gov/ag/page/file/1510931/download> (recognizing that “[d]ifferences in the substantive treatment or
 regulation of digital assets across legal systems . . . may complicate the ability or willingness of foreign partners to assist
 in U.S. investigations”).

¹¹ FINMA, *Developments in FinTech*, <https://tinyurl.com/4p7uu8b6> (last visited Aug. 11, 2023).

¹² Commission Regulation 2023/1114, art. 6, 2023 O.J. (L150/40) ¶ 1, <https://tinyurl.com/2p9yps9s>.

1 The SEC is not suited to the task of crafting a holistic regulatory framework for crypto
 2 assets, particularly through a judicial enforcement action (where neither the SEC nor this Court is
 3 positioned to grapple with the unintended consequences of the SEC’s current enforcement stance,
 4 and the policy implications of its novel legal position). Such policymaking is precisely the role the
 5 Constitution assigns to Congress. Where a balancing of economic factors and trade-offs must
 6 occur, the People’s elected representatives are “entitled to weigh the relevant ‘political and
 7 economic’ costs and benefits for themselves” *Nat’l Pork Producers Council v. Ross*, 143 S.
 8 Ct. 1142, 1160 (2023). The SEC should not “displace the cost benefit analyses inherent in
 9 democratically adopted legislation,” *id.*, with its own enforcement agenda premised on tenuous
 10 authority.

11 **II. THE SEC’S ATTEMPT TO TREAT CRYPTO ASSETS, THEMSELVES, AS**
 12 **SECURITIES IMPROPERLY EXPANDS THE STATUTORY DEFINITION OF**
 13 **“SECURITIES” AND VIOLATES THE SEPARATION OF POWERS.**

14 As Congress advances legislation governing crypto assets, this Court should reject the
 15 SEC’s novel effort to expand its own reach by reading into the term “investment contract” a lurking
 16 power to import a new asset class into the definition of a security. “Agencies have only those
 17 powers given to them by Congress, and enabling legislation is generally not an open book to which
 18 the agency may add pages and change the plot line.” *W. Virginia v. Env’t Prot. Agency*, 142 S. Ct.
 19 2587, 2609 (2022) (internal quotation marks and citation omitted).

20 Whether dubbed “the major questions doctrine” or basic preservation of the separation of
 21 powers, Congress has not conferred on the SEC wholesale regulatory power over this industry, and
 22 accepting the SEC’s theory encroaches on Congress’s legislative role. This agency action should
 23 therefore be treated with skepticism. *Util. Air Regul. Grp. v. Env’t Prot. Agency*, 573 U.S. 302, 324
 24 (2014) (“When an agency claims to discover in a long-extant statute an unheralded power to
 25 regulate a significant portion of the American economy,” courts have long “greet[ed] its
 26 announcement with a measure of skepticism.”) (quoting *Food & Drug Admin. v. Brown &*
 27 *Williamson Tobacco Corp.*, 529 U.S. 120, 123 (2000)).

Courts “expect Congress to speak clearly when authorizing an agency to exercise powers of vast economic and political significance.” *Ala. Ass’n of Realtors v. Dep’t of Health & Hum. Servs.*, 141 S. Ct. 2485, 2489 (2021) (internal quotation marks omitted). Under the “major questions doctrine,” courts are “reluctant to read into ambiguous statutory text the delegation claimed to be lurking there” in “extraordinary cases . . . in which the history and the breadth of the authority that the agency has asserted, and the economic and political significance of that assertion, provide a reason to hesitate before concluding that Congress meant to confer such authority.” *West Virginia*, 142 S. Ct. at 2608–09 (internal quotation marks and citations omitted). In such cases “separation of powers principles and a practical understanding of legislative intent” require an agency to point to “clear congressional authorization for the power it claims.” *Id.* at 2609 (internal quotation marks and citation omitted).

Both pillars of the major questions doctrine favor judicial caution here: (1) there is vast economic and political significance to the SEC’s assertion of authority to define crypto assets as securities, and (2) Congress did not speak clearly to confer such power on the SEC.

On the first pillar, regulation of crypto assets is a matter of great economic and political significance. It is the subject of dozens of recent Congressional hearings and legislative proposals. *See* Section I, *supra*. An Executive Order calling for a wide-ranging interagency response recognizes the “profound implications” for interests such as financial stability and national security.¹³ A multiplicity of reports from numerous corners of the government and private sector

¹³ Exec. Order No. 14067, 87 F.R. 14143 (2022), <https://tinyurl.com/mttbeenp> (calling for a broad interagency response in recognition of the “dramatic growth in markets for digital assets, with profound implications for the protection of consumers, investors, and businesses, including data privacy and security; financial stability and systemic risk; crime; national security; the ability to exercise human rights; financial inclusion and equity; and energy demand and climate change.”).

are focused on the issue.¹⁴ And regulation of the crypto industry is a platform issue for those running for public office.¹⁵ Few economic issues command more political attention today.

By the numbers, crypto assets alone have been valued between \$1 trillion and \$3 trillion, which accounts for just one aspect of a broad and growing marketplace including scores of private and public companies, like Kraken, and their employees that the SEC seeks to pull into its regulatory orbit along with the assets themselves. And in a report published in November 2021, the Pew Research Center estimated that 16% of Americans had invested in, traded, or used cryptocurrency.¹⁶ The Supreme Court recently held that the Secretary of Education’s effort to release borrowers from their obligations to repay \$430 billion in student loans was a matter of “economic and political significance” which merited judicial hesitation “before concluding that Congress meant to confer such authority.” *Biden v. Nebraska*, 143 S. Ct. 2355, 2372 (2023) (internal quotation marks and citations omitted). If \$430 billion in student loans is a matter of “economic and political significance” meriting judicial hesitation, so too is a multitrillion-dollar industry in which 16% of Americans participate.

The largest financial institutions in the world have recognized that regulating crypto asset markets will impact every quarter of finance. The CEO of Blackrock, the world’s largest asset manager (with over \$9 trillion under management), has said crypto assets will be “the next generation for markets.”¹⁷ Moreover, the CEO of JP Morgan Chase (largest U.S. bank with over \$3

¹⁴ See *supra* notes 4 & 9. See also U.S. Dep’t of Com., *Responsible Advancement of U.S. Competitiveness In Digital Assets*, (Sept. 2022), <https://tinyurl.com/2p9htyp7> (noting that digital assets present “tangible risks to the soundness and stability of the US financial system and, if unaddressed, could affect the United States’ position in the global financial system”).

¹⁵ See Michel P. Regan, *Laser Eyes Aglow on the US Presidential Campaign Trail*, Bloomberg, (Aug. 1, 2023), <https://tinyurl.com/25umpypt>.

¹⁶ See Joanna Ossinger, *Crypto World Hits \$3 Trillion Market Cap as Ether, Bitcoin Gain*, Bloomberg (Nov. 8, 2021); Derek Saul, *Crypto Market Crosses \$1 Trillion For First Time in Months As Bitcoin Recovers From FTX-Driven Crash*, Forbes (Jan. 16, 2023); *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide, Part III Before the H. Comm. on Fin. Serv.*, 117th Cong. (2021) (statement of Gary Gensler, Chairman, Sec. and Exch. Comm’n), <https://tinyurl.com/mtrnkbn2>; Andrew Perrin, *16% of Americans Say They Have Ever Invested In, Traded or Used Cryptocurrency*, Pew Resch. Ctr. (Nov. 11, 2021), <https://tinyurl.com/2p9fnjys>.

¹⁷ See, e.g., David G.W. Birch, *Larry Fink Says Tokens are “The Next Generation for Markets,”* FORBES, Mar. 1, 2023, <https://www.forbes.com/sites/davidbirch/2023/03/01/larry-fink-says-tokens-are-the-next-generation-for-markets/?sh=f1f59687bb1b>.

trillion in assets), has also said that his bank should be “scared” of the fintech competitors and that “decentralized finance and blockchain are real.”¹⁸

And the SEC’s position sweeps further still. If the SEC has the power to graft its view of an investment transaction onto non-security financial assets themselves, the same reasoning could apply to other asset classes for which a secondary market develops. On the second pillar, nowhere do the securities laws clearly grant the SEC authority over crypto assets. Nor do the Acts grant authority to add to the enumerated definition of “securities” set forth by Congress. To be clear: Congress has reserved for itself—not the SEC—the fundamental task of determining what type of assets fall within the SEC’s purview, and Congress is the appropriate body to set forth a framework for regulating crypto assets.¹⁹ Congress may decide to grant that authority to the SEC, in whole or in part, but that is a decision Congress must make and that the SEC cannot prematurely usurp for itself.

The SEC’s assertion of power over crypto asset secondary markets—which it reaches by treating crypto assets themselves as securities—is a novel departure from the existing definition of a “security” established by Congress. As the SEC Chair acknowledged not long ago, “it is only Congress that could really address it” because “[r]ight now, there is not a market regulator around these crypto exchanges.”²⁰

The SEC continues to depart from its prior, well-established position to bring this enforcement action against Kraken. It does so by labelling crypto assets themselves as securities. *See, e.g.*, ECF 1, Complaint ¶¶ 1, 228-445. To do so, the SEC relies on the *Howey* test, to assert that the crypto assets are (or can be treated as) investment contracts. *Id.* at ¶¶ 4, 16.

¹⁸ *See, e.g., Chairman & CEO Letter to Shareholders*, JP MORGAN CHASE, <https://reports.jpmorganchase.com/investor-relations/2021/ar-ceo-letters.htm> (last visited Feb. 27, 2024); Luisa Beltran, *JP Morgan CEO Jamie Dimon Warned About the Threat for Fintechs 2 Years Ago, Some 80 Deals Later, Here’s How their Acquisition Strategy is Unfolding*, YAHOO FINANCE, Apr. 25, 2023, <https://finance.yahoo.com/news/jpmorgan-ceo-jamie-dimon-warned-100000173.html>.

¹⁹ Even if Congress ultimately selects a bill that confers on the SEC broad powers over the crypto industry, it is by virtue of Congress conferring that power on the SEC—not the SEC assumption of that power onto itself—that the SEC would have authority to act.

²⁰ *Game Stopped? Who Wins and Loses When Short Sellers, Social Media, and Retail Investors Collide, Part III: Hearing Before the H. Comm. on Fin. Serv.*, 117th Cong. (2021) (statement of Chairman Gary Gensler, Securities and Exchange Commission), <https://tinyurl.com/mtrnkbn2>.

1 This is an unprecedented use of the *Howey* test, which has not been broadly accepted to
 2 capture assets that do not confer or create a recognizable legal interest in a business entity, like debt,
 3 equity or a liquidation preference, even as part of a broader “contract, transaction, scheme” that is
 4 itself an investment contract. As early as 2022, leading practitioners published scholarship
 5 concluding that the SEC’s novel attempt to use *Howey* to construe that a non-security asset itself is
 6 an “investment contract” (even when traded in secondary markets where the purchaser has no legal
 7 relationship to any person or entity that was initially allocated the asset) was unprecedented in the
 8 decades-long history of *Howey*. See Lewis Cohen *et al.*, *The Ineluctable Modality of Securities*
 9 *Law: Why Fungible Crypto Assets Are Not Securities* (Nov. 10, 2022), <https://tinyurl.com/y6sfurf6>.
 10 Specifically, having reviewed 266 *Howey* cases over the last seven decades, which constitutes all
 11 relevant federal appellate and Supreme Court *Howey* cases, the authors concluded that:

12 The one critical quality that can be found across each of the enumerated categories is
 13 the presence of a *legal relationship* volitionally established by an identifiable legal
 14 entity that acts as the issuer of the security and the various other parties who . . . are
 owners of that security.²¹

15 The SEC’s novel interpretation would also create the first class of issuer-independent
 16 securities—*i.e.* securities that do not carry any legal relationship to any identifiable issuer capable
 17 of complying with the Federal securities laws, *id.*—a concept that Congress has not sanctioned.
 18

19 Prior to filing its Complaint, this position was known to the SEC, who favorably cited the
 20 works underlying the Cohen article in their briefing for *SEC v. Ripple Labs, et al.*²² The article’s
 21 core conclusion rejecting the SEC’s “embodiment theory” (*i.e.*, that a crypto asset somehow
 22 “embodies” or “represents” an “ecosystem”) was subsequently recognized by Judge Torres of the
 23 Southern District of New York in her summary judgement order in *Ripple Labs*, where the Court
 24 stated:

25
 26 ²¹ See *Ineluctable Modality*, at 63 (emphasis in original).

27 ²² See *SEC v. Ripple Labs Inc.*, No. 1:20-cv-10832, Reply Memorandum of Law in Support of Motion for
 Summary Judgment against all Defendants, ECF 730, at 28 (December 2, 2022) (where SEC cited the amicus brief filed
 28 by Paradigm Operations LP in the case and characterized it as follows: “noting that application of *Howey* to XRP
 transactions is ‘not new’”).

XRP, as a digital token, is not in and of itself a “contract, transaction[,] or scheme” that *embodies* the *Howey* requirements of an investment contract. Rather, the Court examines the totality of circumstances surrounding Defendants’ different transactions and schemes involving the sale and distribution of XRP. *See Marine Bank v. Weaver*, 455 U.S. 551, 560 n.11 (1982) (“Each transaction must be analyzed and evaluated on the basis of the content of the instruments in question, the purposes intended to be served, and the factual setting as a whole.”).²³

Nevertheless, the SEC continues to assert this unsubstantiated and, ultimately, unworkable theory to bring this action against Kraken. The SEC’s departure from longstanding interpretations of the term “investment contract” and from definition of “security” as legislated by Congress is precisely the sort of “transformative expansion” of the SEC’s “regulatory authority” that triggers judicial skepticism as set forth in *West Virginia*. 142 S. Ct. at 2610 (internal quotation marks and citation omitted). Allowing the SEC to expand the definition of a “security” would encroach on Congress’s role and “effect a fundamental revision of the” Exchange Act, “changing it from one sort of scheme of regulation into an entirely different kind.” *Biden v. Nebraska*, 143 S. Ct. 2355, 2373 (2023) (internal quotation marks, citations, and alterations omitted). The SEC is improperly “seizing the power of the Legislature” by asserting authority over all crypto assets. *Id.*

There is a reason the Constitution favors legislation over agency enforcement actions. A statutory framework balances competing interests and provides both fair warning of obligations and a meaningful opportunity for compliance. Relying on enforcement actions, by contrast, gives little forewarning and scares away good actors in the process.²⁴ “[W]hen it comes to the Nation’s policy, the Constitution gives Congress the reins.” *Nebraska*, 143 S. Ct. at 2381 (Barrett, J., concurring).

* * *

²³ *SEC v. Ripple Labs Inc., et al.*, 2023 U.S. Dist. LEXIS 120486, at *24 (S.D.N.Y. 2023) (emphasis added).

²⁴ Even setting aside the fact that Congress did not clearly grant the SEC authorization to regulate secondary crypto markets, the SEC has been criticized for jumping to enforcement while reneging its role to set forth clear regulation. *See Kara McKenna Rollins, Have the SEC’s Delay Tactics Made Its Petition for Rulemaking Process Vulnerable to Challenge? A Look at In re Coinbase Inc. and SEC’s Nullification of 5 U.S.C. § 553(e) by Inaction*, Yale J. on Reg.: Notice & Comment Blog (May 3, 2023) (explaining that the SEC has received five petitions for rulemaking in the last five years seeking clarity on the cryptoeconomy, and the SEC has neglected to act on all five); *accord In re Coinbase, Inc.*, No. 23-1779 (3d Cir. Jun. 20, 2023) (retaining jurisdiction over mandamus petition seeking rulemaking).

1 “Because the Constitution vests Congress with ‘[a]ll legislative Powers,’ Art. I, § 1, a
2 reasonable interpreter would expect it to make the big-time policy calls itself, rather than pawning
3 them off to another branch.” *Nebraska*, 143 S. Ct. at 2380 (Barrett, J., concurring).

4 As the Supreme Court explained, courts “presume that Congress intends to make major
5 policy decisions itself, not leave those decisions to agencies.” *West Virginia*, 142 S. Ct. at 2609
6 (internal quotation marks omitted). Under the SEC’s approach, the agency would jump ahead of
7 Congress. *Amicus* asks this Court to resist the siren song of a regulatory agency seeking to expand
8 its authority (under the auspices of investor protection) at the expense of the separation of powers.
9 *Id.* (“Extraordinary grants of regulatory authority are rarely accomplished through modest words,
10 vague terms, or subtle devices.”) (internal quotation marks, citation, and alteration omitted).

11 CONCLUSION

12 For the reasons discussed above, this Court should decline the SEC’s novel effort to regulate
13 crypto asset secondary markets on the theory that crypto assets are securities, and defer to Congress
14 to enact a proper regulatory scheme.

15 Kraken’s Motion to Dismiss (ECF 25) should be granted.

16 Dated: February XX, 2024

Respectfully submitted,

17 UNITED STATES SENATOR
18 CYNTHIA M. LUMMIS

19 By: /s/ Chris Land

20 CHRIS LAND (Wyo. Bar #7-6006)
21 UNITED STATES SENATE
22 Office of United States Senator Cynthia M. Lummis
23 127A Russell Senate Office Building
Washington, DC 20510

24 Tel: (202) 224-3424
25 chris_land@lummis.senate.gov

26 *Counsel for Amicus Curiae*

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing document was filed on February XX, 2024, with the Clerk of the Court by using the CM/ECF system, which will effect electronic service on all parties and attorneys registered to receive notifications via the CM/ECF system.

Dated: February XX, 2024

By: /s/ Chris Land
Chris Land